

Message Text

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ACTION L-03

INFO OCT-01 ARA-10 ISO-00 EB-08 TRSE-00 /022 W
-----045066 200724Z /16

R 182015Z MAY 78
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 2339

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E.O. 11652: N/A
TAGS: EFIN, VE
SUBJECT: VENEZUELAN INCOME TAX ON FOREIGN NATIONALS

REF: (A) 77 CARACAS 11871 (B) STATE 69566 (C) CARACAS 2230

1. EMBASSY OFFICIAL-INFORMAL DATED FEBRUARY 21, 1978 AND ADDRESSED TO TERENCE J. FORTUNE OF OFFICE OF LEGAL ADVISOR, DEPARTMENT OF STATE, OUTLINED IN SOME DETAIL TAX LIABILITY INCURRED BY NON-VENEZUELAN TRAVELLING TO VENEZUELA FOR BUSINESS PURPOSES. AS REPORTED IN CARACAS 2230, TAX REFORM LEGISLATION JUST APPROVED BY CONGRESS INCREASES TAX LIABILITY OF FOREIGN BUSINESSMEN VISITING VENEZUELA; IN ADDITION, ATTORNEY GENERAL FOR REPUBLIC OF VENEZUELA HAS REPORTEDLY WRITTEN TO MINISTER OF FINANCE POINTING OUT THAT MANY FOREIGN BUSINESSMEN ARE EVADING VENEZUELAN TAXES AND ADVISING THAT LEGAL ACTION WILL BE TAKEN IN CASES WHEN THIS IS BELIEVED TO OCCUR. WE HAVE HAD NO COMPLAINTS FROM U.S. BUSINESSMEN ON THIS TAX PROBLEM FOR SOME MONTHS. NEVERTHELESS, BECAUSE THE GOV HAS INDICATED IT WILL GET TOUGHER WITH BUSINESSMEN SUSPECTED OF ATTEMPTING TO EVADE TAX LIABILITY AND BECAUSE TAX LIABILITY HAS BEEN INCREASED UNDER THE NEW LAW, WE BELIEVE THIS ISSUE IS POTENTIALLY MORE TROUBLESOME THAN IT HAS PROVEN TO BE IN THE RECENT PAST.

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2. FEBRUARY 21 OFFICIAL-INFORMAL SUGGESTED SEVERAL POSSIBLE OPTIONS USG COULD PURSUE. THEY INCLUDE:

--REPRESENTATIONS TO GOV IN INDIVIDUAL CASES OF SIGNIFICANT ABUSE OR OVERPAYMENT.

-- A JOINT APPROACH TO THE GOV BY A NUMBER OF EMBASSIES
IN CARACAS.

--AN ATTEMPT TO MITIGATE THE PROBLEM THROUGH
AN INFORMAL AND LIMITED ARRANGEMENT WITH THE GOV.

--A FORMAL BILATEAL TAX AGREEMENT.

3. ON DECEMBER 6, 1977, CHARGE DELIVERED DRAFT TEXT OF
BILATERAL TAX AGREEMENT TO VICE MINISTER OF FINANCE.
DURING THEIR MEETING, THE VICE MINISTER WAS ASKED TO
REVIEW THE TEXT AND LET US KNOW WHETHER THE GOV WAS
INTERESTED IN PURSUING THE MATTER FURTHER. EMBOFF
WAS ADVISED MAY 17 THAT GOV WILL BE IN A POSITION TO
RESPOND TO THIS INITIATIVE BY THE END OF JUNE.

INFORMALLY, WE ARE TOLD THAT WHILE GOV WILL PROBABLY
EXPRESS WILLINGNESS TO PROCEED WITH NEGOTIATION OF TAX
TREATY, A NUMBER OF CHANGES IN OUR TEXT WILL BE PROPOSED.
NEGOTIATION OF THE CONVENTION IS THREFORE LIKELY TO
BE A LENGTHY PROCESS AND OFFERS LITTLE IMMEDIATE
PROSPECT FOR EASING THE TAX PROBLEMS OF U.S.
BUSINESSMEN IN VENEZUELA.

4. AN ARRANGEMENT LIMITED TO TAX LIABILITY OF
VISITING U.S. BUSINESSMEN COULD OFFER RELIEF UNTIL WE
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CONCLUDE A GENERAL TAX TREATY, BUT INFORMAL SOUNDINGS
INDICATE THAT THE VENEZUELAS WOULD NOT BE VERY ENTHUSIASTIC
ABOUT SUCH A PROPOSAL. TO PURSUE THIS FURTHER WE NEED
A DRAFT TEXT FROM THE DEPARTMENT. PLEASE ADVISE WHETHER
SUCH A TEXT WILL BE FORTHCOMING.

5. WE HAVE AGAIN DISUCSSED WITH REPRESENTATIVES OF OTHER
EMBASSIES THE IDEA OF A JOINT APPROACH TO THE GOV. THEIR
ENTHUSIASM HAS WANED SINCE THIS MATTER WAS FIRST
BROUGHT UP. AS A RESULT, WE FEEL THIS IS NO LONGER
A VIABLE OPTION.

6. FOR REASONS STATED IN PARAGRAPH (1) ABOVE WE
BELIEVE IT ADVISABLE TO CONTINUE TO SEEK A SOLUTION TO
THE PROBLEM OF TAXATION OF VISITING BUSINESSMEN.
EMBASSY WILL CONTINUE TO PURSUE BILATERAL TAX TREATY
PROPOSAL WITH GOV. WE AWAIT FURTHER DEPARTMENT GUIDANCE
ON AGREEMENT LIMITED TO TAXES ON VISITING U.S. BUSINESSMEN.
WE BELIEVE AGREEMENT BY OTHER EMBASSIES TO MAKE JOINT
APPROACH TO GOV VERY UNLIKELY AT PRESENT AND DO NOT
INTEND TO PURSUE THIS OPTION UNLESS CIRCUMSTANCES CHANGE.
FINALLY, WE WILL MAKE REPRESENTATIONS TO GOV INDIVIDUAL

CASES WHERE APPROPRIATE.

VAKY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TAX LAW, BUSINESSMEN, DIPLOMATIC REPRESENTATIONS, TAX AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978CARACA04574
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780212-0827
Format: TEL
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780546/aaaabmsk.tel
Line Count: 118
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8bd2309b-c288-dd11-92da-001cc4696bcc
Office: ACTION L
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 CARACAS 11871, 78 STATE 69566, 78 CARACAS 2230
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2655007
Secure: OPEN
Status: NATIVE
Subject: VENEZUELAN INCOME TAX ON FOREIGN NATIONALS
TAGS: EFIN, VE, US
To: STATE
Type: TE
vdkgvwkey: odbs://SAS/SAS.dbo.SAS_Docs/8bd2309b-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014